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UNCLAS SECTION 01 OF 20 PARIS 000167

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SENSITIVE

STATE FOR EB/IFD
TREASURY FOR DO/IDD AND OUSED/IMF
SECDEF FOR USDP/DSAA
PASS EXIM FOR CLAIMS -- EDELARIVA
PASS USDA FOR CCC -- ALEUNG/DERICKSON/KCHADWICK
PASS USAID FOR CLAIMS
PASS DOD FOR DSCS -- PBERG

E.O. 12958: N/A
TAGS: EFIN ECON EAID XM XA XH XB XF FR
SUBJECT: PARIS CLUB -- DECEMBER 2004 TOUR D'HORIZON

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SUMMARY

¶1. (U) Following are summaries of country discussions during the December 14, 2004 Paris Club session. The Paris Club's President, Jean-Pierre Jouyet, chaired the session. Staff represented the Secretariat since Secretary General (SecGen) Emmanuel Moulin suffered an

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unexpected medical emergency. Representatives of non-Paris Club members Brazil, Israel and Korea attended discussions on those countries to which they are creditors. Congo Brazzaville negotiation reported septel. The next session of the Paris Club is scheduled for the week of January 10, 2005.

¶2. (U) NOTE: INDIVIDUAL CREDITOR POSITIONS REPORTED IN THIS MESSAGE SHOULD BE TREATED AS "PARIS CLUB CONFIDENTIAL" AND NOT/NOT DISCUSSED WITH DEBTOR COUNTRY

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REPRESENTATIVES, NOR WITH NON-PARIS CLUB PARTICIPANTS.

¶3. (SBU) Discussed in this session:

Angola -- IMF Update (Brazil)
Argentina -- Perspectives for upcoming negotiation (Israel)
China -- creditor status
Congo (Brazzaville) -- upcoming negotiation (Brazil)
Djibouti -- IMF update
Dominican Republic -- IMF Update, comparability of treatment issues, review of arrears
Haiti -- IMF update
Honduras -- IMF update
Iraq -- IMF update, EDR tables
Kenya - IMF update
Kyrgyzstan - debt sustainability analysis (Turkey)
Nigeria - 2005 debt repayment schedule (Brazil)
Peru - - buyback, Secretariat report (Brazil)
Poland -- prepayments (Brazil)
Russia -- buyback proposal
Sierra Leone - agreement extension
Sudan -- IMF update

¶4. (U) ACTION/FOLLOW-UP/UPCOMING ITEMS

Congo (Brazzaville) -- debt relief negotiation -- December 2004 session

Methodology -- Possible publication of rules concerning buybacks and prepayments

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ANGOLA

¶5. (SBU) The Secretariat said that it had not yet been able to talk with the Angolan Minister of Finance (as agreed upon at the November session), and will try again in January. The IMF reported that after the staff visit to Angola in November, although some progress had been made, data issues remain. The GoA is unable or unwilling to share information about its offshore oil accounts. These are not reported as part of their reserves, but the IMF suspects the total roughly equals existing reserves. If the GoA shares the information, then the IMF would visit in January 2005, which could lead to Article IV discussions at the Board in February. The GoA also held bilateral discussions with Hungary and Bulgaria, which appear to have involved debt-rescheduling negotiations,

not merely data reconciliation. The World Bank reported on a memorandum of understanding with the UNDP, and commented that a precondition for a donors' conference would be the signing (not implementation) of a Staff Monitored Program (SMP) with the IMF, and finalization of a poverty reduction strategy paper (PRSP). The objective of such a conference would not be to collect pledges, but to get Angola to get used to multi-year programming. The GoA needs to have a longer-term vision. The Bank will continue for the next 18 months an interim support strategy. Last week it concluded in Paris negotiation about a loan of USD 200 million, with a board date for approval of Feb 11.

¶6. (SBU) The Spanish delegate thanked the IMF for its update, and offered to help the Secretariat contact Angolan officials.

¶7. (SBU) The Chair noted the continuing desire to engage the Angolans, welcomed the Spanish offer of assistance, and promised to report results at the next meeting.

ARGENTINA

¶8. (SBU) The Chair reported on his informal visit to the Argentine authorities (in his capacity as Ambassador, not as Paris Club President), in which the Argentineans urged creditors to be more flexible and creative. The IMF confirmed, however, that the GoA does not want another IMF program; it just wants to repay the IMF as soon as possible and be done with it. This creates the tactical problem that the GoA may seek to approach the Paris Club without an IMF program. It is up to the creditor countries to decide how to handle that possible scenario, but working in tandem has generally been the best approach in the past. As for the private sector, the debt exchange has been pushed forward from last month to February 25, 2005. The GoA expects a high rate of participation. Structural reforms are stalled.

¶9. (SBU) The World Bank rep said the Board approved a loan on December 7 of USD 200 million for provincial services to reactivate the economy. The Board did so only with great reluctance, because of its concerns about debt levels and structural reforms. The rest of the Bank programs are on hold. The rate of net lending flows in 2005 probably will be just under a half billion USD to Argentina; with an IMF program the net flow would be slightly positive to the Bank.

¶10. (SBU) The UK rep argued that although conditionality is important, an IMF program is just a means to an end and perhaps the Paris Club should consider other means, citing Nigeria as an example. In the case of Argentina, however, no conditionality would exist absent an IMF program; therefore, UK opposed any restructuring outside of a Fund program. Germany answered that in the absence of progress on the IMF program, the Paris Club should send a strong letter requesting repayment, complaining that GOA's two years of increasing arrears amounted to an 'indirect rescheduling' of its Paris Club debt. The USDEL agreed to send a letter. Italy agreed to send a letter, but arguing that the time is not right, suggested that perhaps January would be better. Japan said it would join any consensus. The Netherlands noted that it had been pushing for a letter since August, and fully supports sending one because it doubts that the private sector deal will ever materialize.

¶11. (SBU) The Chair proposed that the Secretariat would circulate a draft letter, reminding the GoA about its repayment obligations and that if it wants a debt deal it needs an IMF program. The Chair plans to send the letter in January.

CHINA

¶12. (SBU) Spain asked for China's inclusion on the agenda, in order for the Club to consider the issue of China's relationship with the Paris Club and a possible future membership. Countries agreed that a first step would be for the Secretariat to gather publicly available individual country data on China's role as a creditor. Japan raised the issue of China's Export Bank's loans to Angola as an example. Germany pointed out that China is a WTO but not OECD member, the opposite of Russia, and said China is a major case and its membership in the Club will definitely be a political matter for the Club. The Germany rep said that China had approached the Club very informally in 1999 on its principles and procedures. The Chinese had in the last few days approached Germany via their Embassy to ask about Germany's opinion of a Chinese membership in the Club (UK and Russia later indicated they also had been asked the same question fairly

recently). He asked the IMF for information on China's claims, because to be a Paris Club member a country must have "substantial" claims. The UK noted that China is a very active creditor in Africa and Latin America. The USDEL suggested-and the Chair agreed--that China might be invited to the Paris Club informational meeting (see "Iraq" below) discussion to be set up for non-Paris Club creditors of Iraq.

¶13. (SBU) The IMF said that the Chinese had not raised Paris Club membership during the Fund's most recent mission (which left December 7). The Chinese are a very active creditor, having forgiven $1.3 billion of all debt to 31 African HIPC and low-income countries. He said the IMF could include a questionnaire on China's creditor information during its Article IV consultations in April 2005, and pointed out a number of public sources the Secretariat could use in gathering data on China's

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creditor role. The World Bank also offered to help the Secretariat gather data on developing country claims.

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The Bank pointed out that notwithstanding its growing creditor role, China remains the Bank's largest borrower at $21 billion (half in IBRD exposure, although the IBRD share is declining over time due to early repayments in 2002, 2003, and 2004). China is still an active borrower, at about $1.2 billion a year.

¶14. (SBU) The Chair said it would report to members the results of its informal findings on China's creditor role, so that members could then consider next steps.

CONGO (BRAZZAVILLE)

¶15. (SBU) The IMF said the Board approved on December 6 a three-year PRGF for USD 84 million that is in line with the priorities (decrease poverty, increase oil transparency) identified in the GoC's PRSP. 2002 arrears totaled CFA 258 billion to the Paris Club, while the PRGF assumes a payment of CFA 106 billion in the first year. The IMF research department just revised downward projected oil prices, which brings the IMF assumptions very close to where they were in August with WEO projections. The World Bank noted that the Board approved a USD 30 million economic recovery credit last week; generally the Bank is pleased with the GoC progress in repaying arrears.

¶16. (SBU) The Secretariat distributed the Congolese debt reduction proposal, and commented on two technical details - additional conditions for rescheduling post-ccod debt treated in the 1996 agreed minute, and a 5-year reprofiling of post-ccod debt. Russia said it is not comfortable with the request for a 5-year reprofiling. Denmark requested the agreed minute include a de minimus clause, which Japan supported. The French suggested a clawback clause. The UK expressed uncertainty about a clawback. Germany supported the Russian position, and suggested payment be made in one year. The USDEL questioned whether a clawback clause would be worth the effort, since most debtors refuse them and since they are complex, but noted flexibility within the range between 1 to 5 years for a reprofiling.

¶17. (SBU) The Chair confirmed the Paris Club would open the negotiation with the GoC on December 15.

DJIBOUTI

¶18. (SBU) The Chair reminded creditors that only the first phase of Djibouti's most recent Agreed Minute was ever implemented (from October 1999 to end-August 2000). The IMF said that Djibouti's performance under its SMP started in April 2004 was `quite weak,' with only limited progress on structural reforms. The authorities had hoped the SMP would lay the basis for a PRGF, but agreed to ask for an extension of the SMP in order to create a longer track record (a minimum of two quarters of successful implementation) for the PRGF. During the IMF November mission, the Minister of Finance had lectured the Fund on raising the issue of Djibouti's arrears with certain Paris Club creditors. The IMF should not be involved; instead, creditors should be discussing their disputes regarding arrears directly with the government. Furthermore, the Minister said, those countries (Italy, Spain) were continuing to give grants to Djibouti, implying that they would not be doing so if they had a `real' problem with the Government. Italy and Spain countered that the Government had refused to deal with it in good faith, and in Italy's case, the issue was not a dispute over the debt but rather a dispute over the debt

treatment given by the Paris Club: the Minister had told them it was "unfair" that Djibouti was not a HIPC country. The World Bank representative said progress on its overall Country Assistance Strategy was satisfactory, with its portfolio strengthened and improved; a new CAS will come before the Bank board in January 2005.

¶19. (SBU) The Chair indicated that he would send a firm letter to the Government reaffirming Paris Club solidarity.

DOMINICAN REPUBLIC

¶20. (SBU) The Technical Secretary of the Finance Ministry of the GODR met with the Secretariat the week before the December session to explain the DR's comparability of treatment (CoT) strategy, showing them a copy of a letter sent only to DR creditors (Club members did not see a copy of the letter). The latest CoT attempt relies on a bond swap, the results of which will be known in the coming months. This means the DR will miss the end-December 2004 deadline set in the April 2004 AM. The DR asked the Secretariat for more time; while the 2004 AM has a suspension clause, members did not believe it was a good idea to exercise it after the Secretariat posed the question.

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¶21. (SBU) The new two-year IMF SBA program for 2005/06 is being presented this week, the IMF rep indicated. The Fund said that it would ask members for financing assurances at the January session instead of at the December session. Italy said it has post-ccod arrears on ODA debt of $2.3 million; it also expressed concern about the CoT situation. The USDEL approved of the performance tripwires established in the upcoming SBA, and on the question of post-ccod arrears, acknowledged it was a serious problem but did not support annulling the 2004 AM, instead suggesting that the Club offer financing assurances for just one year. This would meet the members' concerns over CoT, permit the IMF program to go forward, and motivate the DR to work towards CoT. Germany and Spain supported the US idea on one-year assurances, and the IMF confirmed that the two-year program could go forward with assurances for just the first year (the DR would need to return to the Club for negotiations before the second year). Germany added that the DR should clear post-ccod and interest arrears before the next round of negotiations and that creditors should continue to ask for a new DSA. The IMF said the DR could return to the Club in March, and by that time the results of the bond offer should be clear.

¶22. (SBU) The Chair closed the DR session by saying it would circulate before Christmas a draft letter, which would insist on CoT compliance and remind the DR of outstanding arrears. He said the Club could do one year financing assurances, and between January and March members could consider any pre-conditions for negotiations.

HAITI

¶23. (SBU) The IMF is seeking management approval for an Emergency Post-Conflict Assistance (EPCA) arrangement. There could be a meeting in January after which things would move quickly. SMP performance is satisfactory, but some structural commitments are delayed. The stock of arrears to bilateral creditors is USD 28.5 million to France, Italy and Spain, with the bulk of it owed to France. In designing the EPCA facility, the IMF had assumed that Haiti would remain current on payments to those countries that are providing substantial financial support over the EPCA period, e.g., the USG and Canada, which are together providing USD 250 million, far in excess of the USD 2 million of scheduled debt service to those two donors. The IMF is asking creditors if they are willing to go along with a debt service payment moratorium, or provide aid to cover payments due, as a positive signal to Haiti until the time that a new program is available. The World Bank reported on a USD 12 million budget recovery credit, and a USD 73 million package to be presented to the Board on January 6. The Bank strategy is to provide IDA intervention in the short term to restore institutional credibility. The USD 73 million is about half the IDA financing pledged by the Bank, but is contingent on Haiti clearing USD 52 million in IDA arrears.

¶24. (SBU) Italy inquired about the French position, and although it does not have the resources of the US/Canada, it wants to help and so in principle can agree to a payment moratorium. Spain pointed out that the Paris

Club normally keeps a clear separation between financing aid and debt servicing. New money is no alternative to debt treatment. It expressed surprise about being asked for aid today, but will get an answer within a week.

HONDURAS

¶25. (SBU) The Secretariat put Honduras on the December agenda, to see whether after the IMF report the Club would wish to invite Honduras for Completion Point (CP) in spring 2005. The IMF rep said Honduras was broadly on track with its PRGF according to a review done in November, and was doing a good job in meeting its HIPC trigger conditions. A team was in Honduras working on a DSA for HIPC completion point; a Board meeting is planned for March 2005, with a possible CP for end-March 2005. He envisaged no need for topping up. The World Bank concurred with the IMF, and said its Board has scheduled to discuss Honduras' HIPC CP during the second half of March 2005. The Secretariat said given the March CP, it would sometime early next year start collecting the data call.

IRAQ

¶26. (SBU) The Chair stated that two issues remain from the last negotiation: the calculation of how to achieve the 60 percent reduction in the second tranche, and comparability of treatment. The IIG has begun talks with non-Paris Club creditors, but there appears to be a need for an educational campaign. In that vein, the Chair has received a letter from the Kuwait Fund asking for details of the debt deal. The Chair asked for reaction to the idea of the Secretariat organizing an informational meeting in Paris.

¶27. (SBU) The IMF reported that a mission had just left Amman on Saturday after meeting with IIG officials to assess the 2005 Iraq budget. Policy discussions will be held December 18. Information is still only slowly trickling in, so the IMF is unable to judge EPCA performance. The 2005 budget appears to be in line with the EPCA, but questions have arisen about the concrete measures on domestic petrol subsidies and domestic debt management. The IMF understands that the IIG has begun contacting non-Paris Club creditors among the Gulf States and some eastern European countries. The World Bank rep said donor funds of 225 million for 2004 have almost completely been allocated.

¶28. (SBU) Russia asked a technical question about the calculation of the appropriate market rate after 23 years, contained in the Secretariat working paper. The USDEL noted that the USG has the same question as Russia and, while noting the 1994 working paper that serves as a precedent, questioned whether this was a sound methodology. On comparability of treatment, the USDEL welcomed the willingness of the Secretariat to engage in a pedagogical exercise. The USDEL mentioned that it plans to meet with the IIG in December, and hopefully sign its bilateral agreement (note: the bilateral debt treatment was signed December 17 in Washington). The Netherlands requested that the working paper use a December 31, 2004 date for budgetary purposes, as it has already budgeted for debt relief this year. The Secretariat, noting that it had not yet widely

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distributed the 1994 working paper addressing the appropriate market rate, defended the methodology, to which the Russian del proffered his support and said he would not be able to accept any changes to the working paper. The USDEL noted its need to consult in DC.
¶29. (SBU) The Chair said it would provide information to the Kuwait Fund as requested, and would proceed to organize its informational meeting.

KENYA

¶30. The Secretariat indicated a successful IMF Board review would allow for implementation of the second phase (Jan 2005-Dec 31, 2005) of the latest agreement. The IMF representative said the first review is scheduled for December 20; the staff report will recommend an augmentation of the PRGF by 50 million SDR, due in part to increased food imports. The Kenyans were broadly on track with their program. The World Bank said the government was making only slow progress on reforms, with financial sector reforms `relatively' slow. Privatization was also progressing slowly, although the government is working on a paper setting out its privatization policies. The Chairman said the government was on the right track on governance. The USDEL asked

about the relative importance of the five waivers being requested for the upcoming first review; the IMF said they were not particularly significant, characterizing them as `technical and small.' More importantly, authorities were taking offsetting actions. The IMF wanted more, but said Kenya has continued to be affected by contentious deliberations on constitutional reform. Members approved sending a letter to the GOK on the entering into force of the second phase.

KYRGYZ REPUBLIC

¶31. (SBU) The Chair said he had received a letter from the GOK requesting an extension , to align the Paris Club's Houston terms treatment ending December 2004 with the end of the IMF program in April 2005. The Chair indicated he proposed to answer positively, unless he heard otherwise from creditors. The IMF rep told creditors that a staff mission is currently in Bishkek, where the team is evaluating a PRSP. The IMF did provide an extension on November 19 to enable completion of the last review. April was a target extension date with a built-in cushion, staff could go to the Board in February. In the absence of a February Paris Club session, the IMF might seek financing assurances in January. It would appreciate feedback on a new DSA; in its view flow treatments would not suffice, the GoK needing a stock treatment to stabilize debt ratios. The World Bank rep discussed its leadership role in governance and the energy sector. The Bank is happy with the progress on restructuring the energy sector, but not satisfied with the slow pace of government reform. The Board is likely to approve three new projects totaling USD 38.5 million, of which 45 percent are grants.

¶32. (SBU) Russia said it would need to consult in Moscow regarding the extension request. In any event, no substantial payments are due over the next few months, so an extension really might not be necessary. On the DSA, Russia said concessional treatment should be tailored to debtor needs; Naples terms may be too generous. Japan expressed no problem joining a consensus, and noted that the 2002 agreed minute includes a goodwill clause on the stock of previously rescheduled debt, so a concession could be based on that clause. Denmark is OK with an extension, and of course could follow the goodwill clause. Germany agreed with Denmark, and inquired when will the new DSA be available. The IMF acknowledged the need for a new DSA, but commented that it will not change much from the last one.

¶33. (SBU) The Chair urged Russia to provide a reply quickly, to which Russia suggested that the Secretariat prepare a working paper. (Note: USG holds no Krygyz debt.)

NIGERIA

¶34. (SBU) According to the IMF, staff completed a visit on November 15 to look at the 2005 budget framework, which overlapped with a World Bank visit. Article IV consultations are scheduled for late February, and the IMF would do a new DSA for a Board meeting in April or May. The World Bank rep said Nigeria is on track with its legislative reforms; the Bank is thinking of increasing aid to USD 700 million.

¶35. (SBU) The Secretariat expects Nigeria will have an increased capacity to pay its debt in 2005. IMF states that the DSA shows reserves for Nigeria climbing to USD 22 billion by the end of the DSA period; this assumes Paris Club is paid $1 billion in 2005. Nigeria has seen a steady decrease in its debt to GDP ratio, and IMF states that the debt is sustainable. The Secretariat can approach the GoN on an informal basis to urge them to regularize the situation and become current. On the 2005 payment allocation, Denmark's proposal is one option but the Secretariat would not like to reopen the debate.

¶36. (SBU) Concerning lifting of the debt swap moratorium and sharing of 2005 payments: there seemed to be general consensus with lifting of the moratorium once all 2004 payments have been received, although some creditors wanted to press for higher payments in 2005, perhaps requiring that Nigeria not run any new arrears. On the allocation methodology for 2005, there was disagreement, with some supporting staying with the 2004 methodology and some supporting the German/Danish proposal.

¶37. (SBU) Creditors (except for Spain, and Brazil which still has not settled its dispute with Nigeria) confirmed receipt of the final 2004 payment. Russia said it had studied the Danish proposal, and while it is flexible it prefers to leave the allocation as is. On the question of contact, Russia supports sending a letter that ties

lifting the moratorium on debt swaps to increased 2005 payments. Germany agreed with the letter, and mentioned that in a bilateral meeting with the Finance Minister in January, it would press for increased payment. Germany distributed its own table with proposed 2005 allocations, and suggested that the issue should only be discussed within the Paris Club, not with Nigeria. Denmark agreed on a letter with a link to increased payments, and reported that a Nigerian delegation recently had asked about lifting the ban on new export credits. Denmark said no, not with arrears and no IMF program. As for the 2005 allocation, its proposal is still on the table. Spain objected to the draft letter, but said as soon as it gets its payment it could support lifting the debt swap ban. Brazil noted its dispute has not yet been settled with Nigeria about the size of its debt, and so it has not gotten paid. Belgium indicated a preference to link the moratorium end to increased payments. It prefers to continue the 2004 allocation, but suggested that a better solution would be for Nigeria to increase its payments to amounts scheduled so it runs no arrears. The UK agreed to lift the moratorium (once Spain is paid) and while admitting that leveling up is important, prefers not to reopen the issue. The Netherlands signed an ODA agreement on December 13 with the Nigerian FinMin. Responding to the Dutch request for increased payments, the Nigerian Finance Minister had said it is a political decision and a tough sell (which the Dutch interpret as not entirely excluding the possibility). The Finance Minister had asked about a new agreement and the Dutch replied that Nigeria still would need a new DSA. If Nigeria increases payments, the Netherlands can lift the debt swaps embargo. They really should clear all arrears, if not in one year then at least all maturities next year. On the allocation, the Netherlands cannot accept the 2004 schedule, but can accept the Danish proposal (and maybe the German table after taking a look). Japan agreed 2005 payments should be higher. A link to the moratorium is not necessary, but could be acceptable, but in any event the draft letter is acceptable. Italy agreed to the letter, and is sympathetic to the Danish/German proposal. Switzerland agreed with the draft letter, although it prefers greater specificity regarding the amount of increase payments, and strengthening the link. The USDEL agreed to greater specificity, and agreed that if Nigeria were to meet all its maturities in 2005, the Paris Club could avoid the allocation problem. Finland supports the letter.

¶38. (SBU) The Chair took note of the consensus on sending a letter, and the lack of consensus on allocation of 2005 payments. On the latter point, he suggested a technical meeting in January to address the issue. Secretariat also reminded delegations of the Ngozi lunch

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with heads of delegations at the January session.

PERU

¶39. (SBU) The Chair reported that Peru has no intention to return to the Paris Club, but since it has a peak in its repayment schedule, it would like to partially buyback some of its short term debt to smooth out those peaks. The IMF said it had approved on June 9 a precautionary standby arrangement. On November 19 the Board completed its review, and a second review will occur in mid-February 2005. Peru is just using the IMF arrangement to bolster investor confidence to carry it through its elections. It has reduced its public debt ratios from 48 percent of GDP in 2003 to 40 percent in
¶2004. Debt humps will occur in 2008 through 2012. The Finance Minister wants conduct market operations to perform this buyback. The buyback would save costs on debt, improve duration and reduce the overall stock of debt. The IMF supports the buyback proposal. The World Bank said it is granting USD 950 million in new lending; it welcomes the buyback proposal.

¶40. (SBU) The Secretariat noted the proposal would indeed decrease debt peaks. The buyback discount rate would equal the exchange rate for long term debt, meaning payments at slightly higher than par. The Secretariat supports the Peruvian request.

¶41. (SBU) The USDEL said it could go along with the Secretariat proposal, and promised to study the request.

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Germany said it is positively inclined to the proposal, it can go along with a market rate set multilaterally, and an exchange of letters would be sufficient to effect the operation. Spain said it supports the proposal in principle, and is OK with the methodology. Japan said it would like more time to study the details. Italy is in

principle interested, and is OK with the methodology - it is an opportunity to chart new ground.

¶42. The Chair said he would have the Secretariat prepare a letter reporting agreement in principle but requesting more details. The issue will be taken up in January. Creditors should have preliminary views by then.

POLAND

¶43. (SBU) The IMF and the World Bank reiterated support for Poland's prepayment offer. The Secretariat circulated a working paper on how to calculate the discount rate for those countries that chose debt-servicing reduction (DSR), noting that debt for nature swaps would have to be interrupted to achieve the 50 percent NPV reduction accorded in the 1991 Agreed Minute. Many countries expressed interest in the prepayment offer, with a slight majority indicating their intention to pursue the DSR option.

¶44. (SBU) Germany said it has chosen debt reduction so is not concerned with the DSR options. Belgium agreed with the working paper methodology, and reiterated its opposition to being pressured to participate. The Netherlands said it will participate and had already told the Poles; it chose debt reduction so the options are of no concern. Japan said it might have been willing to participate, but it chose DSR so it will not participate. Italy chose DSR, agrees with the methodology, and has not yet decided whether it will participate. Sweden chose DR and is interested. Canada said one of its agencies, the largest creditor, is not interested, but the GOC and EDC are interested (DR option). Denmark chose DSR, is checking the math and seeking authorization; a discount of 11-12 percent might be acceptable. The USDEL is quite attracted to the offer; it chose DR and indicated it still had some internal issues relating to potential budgetary impacts of prepayment. . Finland chose DR option, and is interested. Austria chose DSR, is still checking formulas but probably is mostly not interested. Switzerland selected DSR, is ok with methodology, but hasn't decided yet whether to participate. UK has chosen the DR option, and is interested. Norway chose the DSR option, and is still thinking. Spain is not likely to participate. France chose the DSR option, and agrees with methodology but is still thinking over its participation.

¶45. (SBU) Although many countries indicated interest, a number still needed to think about whether they would participate or not. The Secretariat asked that creditors come back to the Secretariat by the end of the year with their formal positions so that the Secretariat could inform Poland of Paris Club interest.

RUSSIA

¶46. (SBU) The Chair reviewed the Russian offer, and before going around the table for reactions, noted the USDEL was the lone holdout on whether to set the discount bilaterally or multilaterally. The IMF reported that it is still a bit too early to say the Russian government has reached a final decision on the Finance Ministry's prepayment offer. Based on 2005 budget assumptions, approximately USD 10 billion would be available. A bullet buyback would require borrowing from central bank reserves. The Fund wishes to avoid relaxation of Russian fiscal policy, and in fact would prefer further fiscal tightening to bolster monetary policy goals. In short, the IMF welcomes the prepayment. The World Bank concurs.

¶47. (SBU) Germany is pleased its comments to the working paper were incorporated, and is prepared to negotiate the Russian offer. It prefers to leave securitization open as a consequence of failure (note: Germany securitized some of its Russian Paris Club debt in June 2004, to Russia's consternation). The discount rate should be set multilaterally and be market based, as per the working paper and not per the Russian request. Austria urged agreement on methodology, voluntary participation, and freedom to securitize. Italy agreed to the working paper and a multilateral approach. Netherlands favors the multilateral approach, might consider combining discount with Aries bonds, but insists on cash. Australia has not yet decided, but if there is a three-year prepayment with the first year involving cash and subsequent years involving bonds, it would only participate in the first year. Sweden agrees with the working paper, and will provide written comments to the working paper. Japan agrees with the working paper and that the freedom to opt out should be included. Canada is not interested in participating but does support a multilateral approach. Belgium, Denmark, and Spain agree with the working paper

and stress voluntary participation, as does the UK. Finland said it is interested in the Russian proposal and supports the multilateral approach. The USDEL acknowledged that it had argued for a strictly bilateral approach, to preserve voluntary participation, but would join the consensus for a multilateral approach, on the condition that Russia first clears all arrears to all Paris Club creditors. The USDEL also noted the existence of USG contract prepayment clauses that allow prepayment without penalty.

¶48. (SBU) The Chair took note of the consensus on the working paper, with emphasis on voluntary participation. He will therefore indicate that consensus to the Russians and will inform the Russians that the Paris Club will meet with them in January. Germany proposed that as Russia is a Paris Club member, a classical negotiation format is unnecessary; the Secretariat could work with them bilaterally in advance of the next session. Germany also posed a question to the IMF regarding the timing of Russian prepayment to the IMF. The IMF said it understood Russia proposed to prepay the Paris Club creditors first, and then pay the IMF whatever is left over.

SIERRA LEONE

¶49. (SBU) The Secretariat prepared a draft letter granting Sierra Leone an extension so that its Paris Club treatment would coincide with the recently-extended IMF program. The IMF reported that Sierra Leone had its fifth review on November 12, when its PRGF was extended by three months to June 2005. Progress was broadly satisfactory. The government completed its PRSP this month. With a one-year implementation period, HIPC completion point (CP) could be considered end-2005 at the earliest. The Chairman said that if Sierra Leone fails to reach CP, the Club would send another letter.

SUDAN

¶50. The Chairman opened the discussion by asking what conditions the Paris Club would have for dealing with Sudan. The IMF said a March 2005 Board date was set for Article IV discussions, and that a 2005 SMP was envisaged, using a Rights-Accumulated Policy approach. Any timetable will depend on the peace process and a resolution of the Darfur problem. The IMF said funding for IMF arrears clearance for Sudan needs to be identified. It also confirmed that financing assurances would be needed for a RAP. Zambia had received a Naples treatment under a RAP in 1992, which could be used as a precedent for Sudan. Norway said Darfur and peace agreement were requirements, and asked when non-Paris Club creditors would be advised of the need for financing assurances.

¶51. (SBU) The USDEL also affirmed that no formal discussion of arrears clearance should take place before Darfur was resolved. Responding to a question from Denmark, the IMF said the RAP could last 1-3 years. He also said IMF HIPC financing could take time (one idea has been IMF gold sales). Answering the UK question about getting non-Paris Club creditors involved, the IMF said under the IMF's lending into arrears policy, the IMF considers that financing assurances from Paris Club creditors extend to non-Paris Club creditors. However, that Board decision dates to 1983, a time when Paris Club creditors were the largest group of creditors; however, now Sudan has large non-Paris Club creditors, so it would be desirable for Sudan to seek comparable treatment. Either the PC itself could consider contacting major non-PC creditors on Sudan's behalf (precedents exist), or the IMF could consult via ED's, per Iraq model. The Chairman said Secretariat could contact; the German rep said the Club should avoid sending a signal to the outside world; the US agreed, reiterating that Darfur would need to be resolved before outside creditors were engaged.
Minimize considered.

LEACH